

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

RATE ADJUSTMENT OF WESTERN)	CASE NO.
KENTUCKY GAS COMPANY)	90-013

O R D E R

IT IS ORDERED that Western Kentucky Gas Company ("Western Kentucky") shall file the original and 12 copies of the following information with the Commission within 14 days of the date of this Order, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. In reference to Item 18(a) of Western's response to the Commission's Order dated February 9, 1990, identify each item of

expense that experienced a change of 10 percent or more during the test period and explain the reason for the change.

2. Provide a breakdown of direct property, plant and equipment for each operating unit of Atmos Energy Corporation ("Atmos") included in the \$324,256,943 on page 5 of Exhibit MSL-1.

3. Provide the amounts of wage and salary increases given to Western employees during the test year. The information should be broken down into management, union, and non-union.

4. Provide the information described in question 3 above the period from the end of the test period to December 31, 1989.

5. Provide the detailed working papers for the calculation of the \$11,483,061 annualized payroll shown on Exhibit MSL-3 page 1 of 3.

6. Provide all journal entries pertaining to the accounting changes on Exhibit MSL-4 and reflected in adjustments No. 7 and No. 9.

7. Provide detailed information relating to the \$235,712 of legal services shown at line 4 of Exhibit MSL-5.

8. Provide a breakdown of the estimated \$93,000 of outside service fees for this case.

9. Provide the basis for the determination of adjustment No. 13 on Exhibit 5, page 4 of 27. Include a listing of the specific property for which depreciation expense is allocated to Western and the total amount of depreciation on each item of property.

10. Provide a breakdown of the \$6,244,871 of other operating expenses shown in column 1 line 24 of Exhibit 5, page 1 of 27.

11. In response to Item 8 of the Commission's Order of February 9, 1990, Western shows on page 8 of 10 a balance of \$313,204 in account 406, amortization of plant acquisition adjustment. Does Western have Commission approval to include this expense in its cost of service?

12. Provide a balance sheet for Western immediately prior to acquisition by Atmos and a balance sheet immediately following the acquisition.

13. In reference to Western's response to Item 26 of the Commission's Order dated February 9, 1990, provide the following:

a. detailed information concerning the \$22,610 aircraft charges.

b. a list of the "various attorneys" and the amount of the retainer for each attorney and the attorney's location in the service area.

c. a detailed listing of the types of management services provided by C. R. Hayes.

d. details of the \$48,000 of auditing accruals from Atmos.

e. detailed explanation and supporting documentation for \$32,338 to Arthur Andersen and Company for mandated management audit expense.

14. Provide detailed itemized billings to Western from Atmos for each month of the test period and each month for the 12 months preceding the test period. The information should contain details such as the reason for the charge, the department from which the

charge originated, and whether the expense is a direct charge or is an allocation.

15. Provide the information described in question 14 above for all billings from any affiliate or subsidiary of Western other than Atmos.

16. On page 5, line 10, of Mr. Bickerstaff's testimony is a reference to the code of Federal Regulations (18CFR152.1). Provide a copy of this regulation.

17. On page 6 of his testimony, Mr. Bickerstaff refers to a reclassification of labor costs from general and administrative to operations. Provide the amount of these expenses and the related journal entries that were made.

18. On page 18 of Ms. Lovell's testimony beginning at line 20, explain the capitalization of administrative and general costs by Atmos and the discontinuation of capitalization of overhead costs by Western. Were these costs actually incurred by Western or incurred by Atmos?

19. On Exhibit MSL-3, page 2 of 2, explain why the \$582,302 of A & G overhead will not recur as of January 1, 1990. Will it be booked elsewhere, and if so, where?

20. On Exhibit MSL-8, page 1, there is listed corporate plant in service of \$3,997,896. Provide a detailed breakdown of the allocation of this plant to all operating units other than Western.

21. Provide copies of all working papers used to prepare the consolidated balance sheet for Atmos at September 30, 1989 specifically those working papers that show the eliminating

entries for any intercompany transactions between Western and its affiliates.

22. Provide copies of all adjusting journal entries made at September 30, 1989 with a detailed explanation as to why each adjustment was made.

23. This filing contains proposals to increase certain expenses as a result of Atmos providing additional services to Western. Has the provision of services by Atmos and the centralization of certain functions resulted in any cost savings to Western? Explain.

24. Provide a balance sheet at September 30, 1989 of Western as a "stand-alone" company. This information is not provided in the monthly reports filed with the KPSC.

25. Provide capitalization figures at the end of the test-period for Western as a "stand-alone" company. The information should be furnished in the same format as required in Item 1 of the Commission's Order dated February 9, 1990.

26. Provide on 5 1/4" computer diskettes all workpapers, schedules, exhibits, and other information that have been filed or will be filed in this case. The information shall be provided on LOTUS 123, Symphony, or 2020 spreadsheets.

27. The testimony of Mr. Carnahan deals with Western's gas supply strategy, its ability to compete in today's energy markets, and the proposed adjustment to large volume industrial sales and transportation volumes. Regarding the subjects mentioned in Mr. Carnahan's testimony, provide the following information:

a. Mr. Carnahan states that Western has approximately 300 industrial customers and that, due to the absence of cost-based rates, Western has lost several industrial customers from its system. As a point of reference, provide in comparative form, for the calendar years 1986, 1987, and 1988, and the test year:

- (1) The average number of industrial customers.
- (2) Mcf sales to industrial customers.
- (3) Mcf volumes transported for industrial customers.

b. Regarding Western's competitive situation and its transportation customers, provide in comparative form, for calendar years 1986, 1987, 1988, and the test year:

- (1) The average number of transportation customers.
- (2) The volumes transported by Western.
- (3) The revenues generated from transportation.

c. For the test year provide:

- (1) The number of transportation customers with alternative fuel capabilities identifying the number capable of burning fuel oil, coal, wood, etc.
- (2) The number of transportation customers that can physically bypass Western.
- (3) The volumes transported for each group.

28. Item 41 of the response to the Commission's Order of February 9, 1990, shows the monthly and average numbers of customers for the test year by customer class. This response

shows an increase in residential and commercial customers of 1,366 from October 1988 through September 1989. Provide the following information related to Western's customer growth:

a. The monthly and average numbers of customers by customer class for the 12-month periods ended September 1986, September 1987, and September 1988.

b. Identify, by account number and dollar amount, the test-year variable costs that would increase as the number of customers increases; similarly identify the variable costs that increase as Mcf sales increase.

c. An explanation of how Western has recognized and reflected customer growth in its calculation of normalized sales volumes and revenues.

29. Adjustment No. 5 in Western's application increases gas cost relative to Adjustments No. 2 and 3, which normalize sales and transportation volumes. Western's cost of gas will increase as sales volumes increase; however, while a portion of Western's gas cost is recovered through its transportation charges, Western's cost of gas does not increase as a direct result of increases in transportation volumes. Provide a detailed explanation of why gas cost is being adjusted for increases in transportation volumes.

30. Provide the following information regarding Western's proposed rate design as discussed in the testimony of Mr. Petersen:

a. Mr. Petersen discusses the development of the declining block rate design. Provide the results of any analysis

performed by Western which supports the proposed block steps at 300 and 15,000 Mcf as opposed to other Mcf levels.

b. The proposed rate differentials between the blocks are 62.57 cents and 20 cents for G-1 and 20 cents for G-2. Provide an explanation and any supporting analysis for how these differentials were derived.

c. Mr. Petersen explains why existing rates G-2 and G-3 are being combined. Explain whether any consideration was given to retaining the separate rate schedules but with a smaller difference in rates and/or a declining block structure that would lessen the differences between smaller and larger customers. Provide the results of any related analysis and an explanation of why merging the two schedules is preferred.

d. Mr. Petersen explains that cost causation was the primary consideration in designing the proposed rates. Other factors he cites include competition from other fuels, simplicity of design, and gradualism. Provide a detailed explanation of the manner in which gradualism is reflected in the proposed rates.

e. On pages 14 and 15 of his testimony, Mr. Petersen discusses the proposed treatment of pipeline demand charges. Provide a detailed explanation of the statement on page 15 that if gas cost recovery is left at a uniform level for all sales, the effect of load changes will not be reasonably shared between the general body of customers and the company.

f. On page 16 of his testimony, Mr. Petersen highlights the proposed changes in monthly customer charges. The proposed \$6 charge for residential customers is compared to the

calculated customer cost of \$9.46. The proposed charges, per the testimony, are intended to more fully recover the customer costs which are incurred even when no gas is taken. Provide a detailed explanation for selecting the amount of \$16 as the proposed non-residential customer charge, particularly considering that the calculated customer costs for industrial customers range from \$82.85 to \$1,543.87.

31. Provide the following information regarding class cost of service issues addressed in the testimony of Mr. Petersen:

a. Regarding the curtailment of interruptible customers in Texas Gas Zone 3 in December 1989 provide the following:

- (1) The average temperature for each day of the curtailment.
- (2) System-wide Mcf requirements for each day of the curtailment.
- (3) The average daily volume for the Zone 3 loads that were curtailed.

b. Provide the dates and durations of all interruptions imposed by Western from 1980 through 1989. Include the average daily temperatures and system-wide Mcf requirements for each day of curtailment.

c. On page 11 of his testimony, Mr. Petersen states that contract demand is almost exclusively determined by expected firm customer demand levels under design day conditions. If design day conditions do not occur, isn't it true that interruptible customers will contribute to actual peak day demand?

d. On any day when design day conditions do not exist, isn't it true that interruptible customers have access to the capacity established by contract demand levels?

e. Provide a detailed explanation for using the relationship between annual and peak day use as the method of allocating pipeline demand charges between firm and interruptible customers.

32. Provide, in the format used in THP Exhibit 3, the results of changing the allocation factor for pipeline demand costs from the average and peak allocator (A&P) to annual volume (Vol-A). For purposes of this response, modified versions of THP Exhibit 3, pages 1, 2, and 7 will be required.

33. Customer cost allocators CUST-B, CUST-C, CUST-D, CUST-E, and CUST-F are derived through weighting mechanisms shown on lines 16, 17, 19, 21, and 23 of THP Exhibit 3, page 16. Explain the purpose of the weighting mechanisms and demonstrate how the allocators are calculated.

34. The customer cost allocators CUST-A, CUST-B, CUST-C, CUST-D, CUST-E, and CUST-F are used on THP Exhibit 3, pages 5, 11, and 13. Each time one of these customer cost allocators is used on any of these pages, explain why it was chosen to allocate that particular item to the customer classes.

35. Explain the purpose of cost allocators RB-CUS, RB-DEM, RB-COMM, and RB-DIR as shown on THP Exhibit 3, page 17. Demonstrate fully how these allocators are derived. Explain how the customer class dollar amounts for each cost component were determined.

36. Cost allocators RB-CUS, RB-DEM, RB-COMM, and RB-DIR are used on THP Exhibit 3, pages 7, 9, 11, 13, and 15. Each time one of these cost allocators is used on any of these pages, explain why it was chosen to allocate that particular item to the customer classes.

37. Explain the purpose of the gross plant percentages used on THP Exhibit 4, Sheet 1. Discuss how they are used to allocate rate base items and to determine net rate base.

38. Explain why the number of feet of distribution mains (variable W) was used as a weighting variable in the least squares estimation of the zero-intercept study shown on THP Exhibit 4, Sheet 7.

39. On pages 16 and 17 of his testimony, Mr. Petersen discusses the proposed carriage service rate T-3. Have any customers expressed interest in transportation service without standby service or is the proposed rate solely in response to the Order in Administrative Case No. 297?¹

40. Exhibit 14 of Western's application is listed as being one of the exhibits filed to comply with 807 KAR 5:001, Sections 6 and 10. The exhibit, as identified, appears to be a proposed form of service contract. As such, it is not relevant to 807 KAR 5:001, Section 6 or 10, and it does not appear that any Western witness has sponsored this exhibit or addressed it in testimony.

¹ Administrative Case No. 297, An Investigation of the Impact of Federal Policy on Natural Gas to Kentucky Consumers and Suppliers.

Provide an explanation of the purpose of this exhibit and what action, if any, Western requests from the Commission.

41. Why does Western's proposed capital structure include no short-term debt? If short-term debt was included, what would the resulting weighted average cost of capital be?

42. Provide all workpapers, including the relevant pages of the January 5, 1990 Value Line Investment Survey, to support the average dividend yield and growth rate of the 15 natural gas distribution companies as shown on RW Schedule 3, page 1 of 2 of Mr. Wallace's testimony.

Done at Frankfort, Kentucky, this 30th day of March, 1990.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director